

GDP and the Economy

Third Estimates for the Second Quarter of 2014

REAL GROSS domestic product (GDP) increased 4.6 percent at an annual rate in the second quarter of 2014, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ In the first quarter, real GDP decreased 2.1 percent.

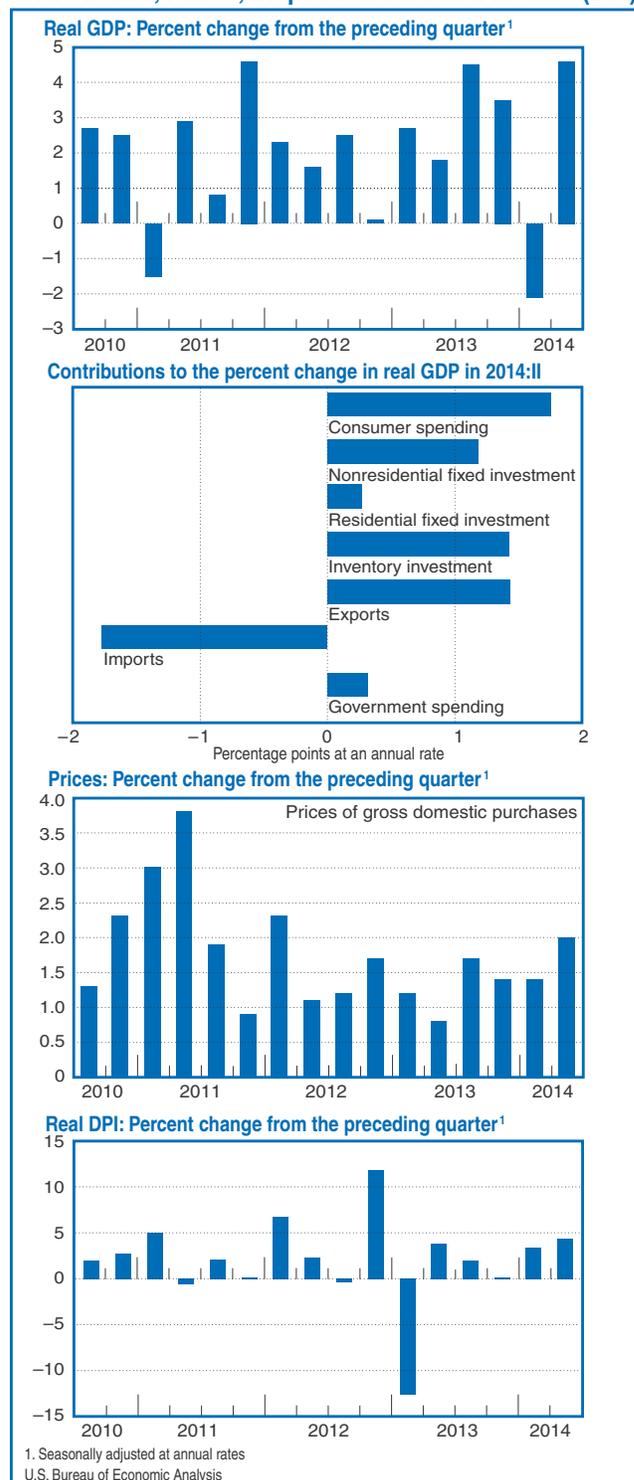
The third estimate of real GDP growth was revised up 0.4 percentage point from the second estimate. Increases in nonresidential fixed investment and in exports were larger than previously estimated (see table 2).

- The increase in real GDP in the second quarter primarily reflected positive contributions from consumer spending, exports, inventory investment, nonresidential fixed investment, state and local government spending, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.²
- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 2.0 percent in the second quarter, 0.1 percentage point more than in the second estimate; in the first quarter, this index increased 1.4 percent. Both energy prices and food prices picked up in the second quarter. Excluding food and energy, prices increased 1.7 percent in the second quarter after increasing 1.3 percent in the first quarter.
- Real disposable personal income (DPI) increased 4.4 percent in the second quarter, 0.2 percentage point more than in the second estimate, after increasing 3.4 percent in the first quarter. Current-dollar DPI increased 6.8 percent after increasing 4.8 percent.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 5.4 percent in the second quarter; in the first quarter, the rate was 4.9 percent.
- Real gross domestic income increased 5.2 percent in the second quarter after decreasing 0.8 percent in the first quarter.
- Corporate profits from current production increased \$164.1 billion in the second quarter after decreasing \$201.7 billion in the first quarter (see table 3).

1. "Real" estimates are in chained (2009) dollars, and price indexes are chain-type measures. Each GDP estimate for a quarter (advance, second, and third) incorporates increasingly comprehensive and improved source data; for more information, see "The Revisions to GDP, GDI, and Their Major Components" in the August 2014 SURVEY OF CURRENT BUSINESS. Quarterly estimates are expressed at seasonally adjusted annual rates, which assumes that a rate of activity for a quarter is maintained for a year.

2. In this article, "consumer spending" refers to "personal consumption expenditures," "inventory investment" refers to "change in private inventories," and "government spending" refers to "government consumption expenditures and gross investment."

Chart 1. GDP, Prices, Disposable Personal Income (DPI)



Real GDP Overview

Table 1. Real Gross Domestic Product (GDP) and Related Measures

[Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)		Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)			
	2014		2013		2014		2013		2014	
	II	III	IV	I	II	III	IV	I	II	
Gross domestic product ¹	100.0	4.5	3.5	-2.1	4.6	4.5	3.5	-2.1	4.6	
Personal consumption expenditures	68.5	2.0	3.7	1.2	2.5	1.39	2.51	0.83	1.75	
Goods.....	22.9	3.5	3.7	1.0	5.9	0.80	0.83	0.23	1.33	
Durable goods.....	7.5	4.9	5.7	3.2	14.1	0.36	0.42	0.23	0.99	
Nondurable goods.....	15.4	2.8	2.7	0.0	2.2	0.43	0.41	0.00	0.34	
Services.....	45.6	1.3	3.7	1.3	0.9	0.59	1.69	0.60	0.42	
Gross private domestic investment	16.4	16.8	3.8	-6.9	19.1	2.50	0.62	-1.13	2.87	
Fixed investment.....	15.8	6.6	6.3	0.2	9.5	1.01	0.95	0.03	1.45	
Nonresidential.....	12.6	5.5	10.4	1.6	9.7	0.67	1.23	0.20	1.18	
Structures.....	2.9	11.2	12.8	2.9	12.6	0.29	0.34	0.08	0.35	
Equipment.....	5.8	4.7	14.1	-1.0	11.2	0.27	0.76	-0.06	0.63	
Intellectual property products.....	3.9	2.8	3.6	4.6	5.5	0.11	0.14	0.18	0.21	
Residential.....	3.2	11.2	-8.5	-5.3	8.8	0.34	-0.28	-0.17	0.27	
Change in private inventories.....	0.6	.....	.....	.....	.....	1.49	-0.34	-1.16	1.42
Net exports of goods and services	-3.2	.....	.....	.....	.....	0.59	1.08	-1.66	-0.34
Exports.....	13.5	5.1	10.0	-9.2	11.1	0.67	1.30	-1.30	1.43	
Goods.....	9.4	5.7	13.6	-11.9	14.3	0.52	1.20	-1.18	1.26	
Services.....	4.2	3.6	2.3	-2.8	4.0	0.15	0.10	-0.12	0.17	
Imports.....	16.7	0.6	1.3	2.2	11.3	-0.09	-0.22	-0.36	-1.77	
Goods.....	13.9	0.1	0.9	2.5	12.5	-0.01	-0.12	-0.33	-1.62	
Services.....	2.8	2.8	3.5	1.0	5.6	-0.08	-0.09	-0.03	-0.15	
Government consumption expenditures and gross investment	18.3	0.2	-3.8	-0.8	1.7	0.04	-0.71	-0.15	0.31	
Federal.....	7.0	-1.2	-10.4	-0.1	-0.9	-0.08	-0.79	-0.01	-0.06	
National defense.....	4.4	0.4	-11.4	-4.0	0.9	0.03	-0.55	-0.18	0.04	
Nondefense.....	2.6	-3.9	-8.6	6.6	-3.8	-0.11	-0.24	0.17	-0.10	
State and local.....	11.3	1.1	0.6	-1.3	3.4	0.13	0.07	-0.14	0.38	
Addenda:										
Final sales of domestic product.....	99.4	3.0	3.9	-1.0	3.2	3.03	3.84	-0.95	3.18	
Goods.....	30.5	10.8	8.1	-8.5	11.4	3.18	2.43	-2.69	3.34	
Services.....	61.8	1.1	1.8	1.4	0.6	0.74	1.10	0.86	0.40	
Structures.....	7.7	8.3	-0.4	-3.8	11.7	0.60	-0.03	-0.29	0.85	
Motor vehicle output.....	2.9	-10.6	18.5	3.3	21.3	-0.31	0.47	0.09	0.55	
GDP excluding motor vehicle output.....	97.1	5.0	3.1	-2.3	4.1	4.83	3.03	-2.20	4.05	
Final sales of computers.....	0.4	-4.0	6.2	17.8	14.6	-0.02	0.03	0.07	0.06	
GDP excluding final sales of computers.....	99.6	4.6	3.5	-2.2	4.6	4.53	3.47	-2.17	4.54	
Research and development (R&D).....	2.5	-2.9	-0.8	2.9	3.4	-0.08	-0.02	0.07	0.09	
GDP excluding R&D.....	97.5	4.7	3.6	-2.2	4.6	4.59	3.52	-2.18	4.51	
Gross domestic income (GDI) ².....	.....	1.9	1.8	-0.8	5.2	.....	.....	.....	.....

1. The estimates of GDP under the contribution columns are also percent changes.

2. GDI is deflated by the implicit price deflator for GDP.

NOTE. For GDP and its components, percent changes are from NIPA tables 1.1.1 and 1.2.1, contributions to percent change are from NIPA tables 1.1.2 and 1.2.2, and shares are from NIPA table 1.1.10, or they are calculated from table 1.2.5. For GDI, percent changes are from NIPA table 1.7.1.

Real GDP growth turned up in the second quarter. The upturn primarily reflected upturns in exports and in inventory investment, pickups in nonresidential fixed investment and in consumer spending, and upturns in state and local government spending and in residential fixed investment that were partly offset by a pickup in imports.

The pickup in consumer spending reflected a pickup in spending for goods (primarily durable goods) that was partly offset by a slowdown in spending for services. In services, a downturn in spending for electricity and gas services was largely offset by an upturn in spending for health care services.

The pickup in nonresidential fixed investment primarily reflected an upturn in equipment (mainly in information processing equipment).

The upturn in residential fixed investment primarily reflected an upturn in "other" structures (specifically, brokers' commissions and other ownership transfer costs).

The largest contributors to the upturn in inventory investment were retail trade industries and mining, utilities, and construction industries.

The upturn in exports reflected upturns in both goods and services. The leading contributor to the upturn in goods was industrial supplies and materials (specifically, petroleum and petroleum products). For services, the largest contributor was "other" business services (mostly financial services).

The pickup in imports was mostly accounted for by a pickup in goods imports (mainly in automotive vehicles, engines, and parts and in consumer durable goods).

The upturn in state and local government spending was primarily accounted for by an upturn in gross investment (specifically in structures).

Real final sales of domestic product, real GDP less inventory investment, increased 3.2 percent after decreasing 1.0 percent.

Revisions to GDP

Table 2. Second and Third Estimates for the Second Quarter of 2014

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Second	Third	Third minus second	Second	Third	Third minus second
Gross domestic product (GDP) ¹	4.2	4.6	0.4	4.2	4.6	0.4
Personal consumption expenditures	2.5	2.5	0.0	1.69	1.75	0.06
Goods	5.8	5.9	0.1	1.30	1.33	0.03
Durable goods	14.3	14.1	-0.2	1.00	0.99	-0.01
Nondurable goods	1.9	2.2	0.3	0.29	0.34	0.05
Services	0.8	0.9	0.1	0.40	0.42	0.02
Gross private domestic investment	17.5	19.1	1.6	2.64	2.87	0.23
Fixed investment	8.1	9.5	1.4	1.25	1.45	0.20
Nonresidential	8.4	9.7	1.3	1.03	1.18	0.15
Structures	9.4	12.6	3.2	0.26	0.35	0.09
Equipment	10.7	11.2	0.5	0.59	0.63	0.04
Intellectual property products	4.4	5.5	1.1	0.17	0.21	0.04
Residential	7.2	8.8	1.6	0.22	0.27	0.05
Change in private inventories				1.39	1.42	0.03
Net exports of goods and services				-0.43	-0.34	0.09
Exports	10.1	11.1	1.0	1.31	1.43	0.12
Goods	13.8	14.3	0.5	1.22	1.26	0.04
Services	2.2	4.0	1.8	0.09	0.17	0.08
Imports	11.0	11.3	0.3	-1.74	-1.77	-0.03
Goods	12.3	12.5	0.2	-1.60	-1.62	-0.02
Services	5.0	5.6	0.6	-0.14	-0.15	-0.01
Government consumption expenditures and gross investment	1.4	1.7	0.3	0.27	0.31	0.04
Federal	-0.9	-0.9	0.0	-0.06	-0.06	0.00
National defense	0.9	0.9	0.0	0.04	0.04	0.00
Nondefense	-3.7	-3.8	-0.1	-0.10	-0.10	0.00
State and local	2.9	3.4	0.5	0.33	0.38	0.05
Addenda:						
Final sales of domestic product	2.8	3.2	0.4	2.78	3.18	0.40
Gross domestic income	-2.3	5.2	7.5			
Gross domestic purchases price index	1.9	2.0	0.1			
GDP price index	2.1	2.1	0.0			

1. The estimates of GDP under the contribution columns are also percent changes.

The third estimate of the second-quarter change in real GDP was 0.4 percentage point higher than the second estimate released last month. The upward revision primarily reflected upward revisions to nonresidential fixed investment and to exports. For 1978–2013, the average revision (without regard to sign) between the second estimate and the third estimate is 0.3 percentage point.

Consumer spending for services was revised up slightly. An upward revision to spending for health care services was mostly offset by downward revisions to spending for “other” services (primarily communication services) and to spending for recreation services. The revisions reflect the incorporation of newly available services data for the second quarter.

The upward revision to nonresidential fixed investment primarily reflected an upward revision to structures (specifically, manufacturing structures).

The upward revision to exports reflected upward revisions to exports of services (primarily travel services) and to exports of goods.

Source Data and Methodologies

For the details about the source data and the methodologies that are used for the estimates, see *Concepts and Methods of the U.S. National Income and Product Accounts* at www.bea.gov/methodologies/index.htm.

Source data for the third estimate. The third estimate of GDP for the second quarter of 2014 incorporated the following source data.

Consumer spending: Census Bureau retail sales data for June (revised) and quarterly services survey data for the second quarter (new), Energy Information Administration electricity and natural gas usage and unit value data for May (revised) and June (new), and Securities and Exchange Commission FOCUS report data for the second quarter (new).

Nonresidential fixed investment: Census Bureau construction spending data for May and June (revised) and quarterly services survey data for the second quarter (new).

Residential fixed investment: Census Bureau construction spending data for May and June (revised).

Inventory investment: Census Bureau manufacturers' and trade inventories for June (revised) and *Quarterly Financial Report* data for the second quarter (revised).

Exports and imports: Bureau of Economic Analysis international transactions accounts data for April through June (revised).

Government spending: Census Bureau construction spending data for May and June (revised).

Corporate Profits

Table 3. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)			
	Level	Change from preceding quarter							
	2014	2013		2014		2013		2014	
	II	III	IV	I	II	III	IV	I	II
Current production measures:									
Corporate profits	2,106.2	37.1	3.1	-201.7	164.1	1.8	0.1	-9.4	8.4
Domestic industries.....	1,712.2	20.6	-10.8	-175.7	167.6	1.2	-0.6	-10.2	10.9
Financial.....	452.0	27.8	-5.1	-86.2	33.3	5.8	-1.0	-17.1	7.9
Nonfinancial	1,260.2	-7.2	-5.6	-89.6	134.3	-0.6	-0.5	-7.4	11.9
Rest of the world	393.9	16.5	13.9	-26.0	-3.6	4.2	3.4	-6.1	-0.9
Receipts from the rest of the world	671.4	13.3	14.7	-8.9	2.7	2.0	2.2	-1.3	0.4
Less: Payments to the rest of the world	277.5	-3.2	0.7	17.1	6.3	-1.3	0.3	6.7	2.3
Less: Taxes on corporate income	608.0	8.3	27.9	66.9	45.7	1.8	6.0	13.5	8.1
Equals: Profits after tax	1,498.2	28.7	-24.7	-268.6	118.4	1.7	-1.5	-16.3	8.6
Net dividends	902.3	-187.0	80.6	-89.5	-0.5	-17.0	8.8	-9.0	-0.1
Undistributed profits from current production	595.9	215.8	-105.5	-178.9	118.8	39.5	-13.8	-27.3	24.9
Net cash flow	2,052.9	228.0	-92.3	-163.0	133.4	11.7	-4.2	-7.8	6.9

NOTE. Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

Profits from current production increased \$164.1 billion, or 8.4 percent at a quarterly rate, in the second quarter after decreasing \$201.7 billion, or 9.4 percent, in the first quarter.

Profits of domestic financial corporations increased \$33.3 billion, or 7.9 percent, after decreasing \$86.2 billion, or 17.1 percent.

Profits of domestic nonfinancial corporations increased \$134.3 billion, or 11.9 percent, after decreasing \$89.6 billion, or 7.4 percent.

Profits from the rest of the world decreased \$3.6 billion, or 0.9 percent, after decreasing \$26.0 billion, or 6.1 percent. In the second quarter, receipts increased \$2.7 billion, and payments increased \$6.3 billion.

Taxes on corporate income increased \$45.7 billion, or 8.1 percent, in the second quarter after increasing \$66.9 billion, or 13.5 percent, in the first quarter.

Net dividends decreased \$0.5 billion, or 0.1 percent, after decreasing \$89.5 billion, or 9.0 percent.

Measuring Corporate Profits

Corporate profits is a widely followed economic indicator used to gauge corporate health, assess investment conditions, and analyze the effect on corporations of economic policies and conditions. In addition, corporate profits is an important component in key measures of income.

BEA's measure of corporate profits aims to capture the income earned by corporations from current production in a manner that is fully consistent with the national income and product accounts (NIPAs). The measure is defined as receipts arising from current production less associated expenses. Receipts exclude income in the form of dividends and capital gains, and expenses exclude bad debts, natural resource depletion, and capital losses.

Because direct estimates of NIPA-consistent corporate profits are unavailable, BEA derives these estimates in three steps.

First, BEA measures profits before taxes to reflect corporate income regardless of any redistributions of income through taxes. Estimates for the current quarter are based on corporate earnings reports from sources including the

Census Bureau *Quarterly Financial Report*, Federal Deposit Insurance Corporation call reports, other regulatory reports, and tabulations from corporate financial reports. The estimates are benchmarked to Internal Revenue Service (IRS) data when these data are available for two reasons: the IRS data are based on well-specified accounting definitions, and they are comprehensive, covering all incorporated businesses—publicly traded and privately held—in all industries.

Second, to remove the effects of price changes on inventories valued at historical cost and of tax accounting for inventory withdrawals, BEA adds an inventory valuation adjustment that values inventories at current cost.

Third, to remove the effects of tax accounting on depreciation, BEA adds a capital consumption adjustment (CCAdj). CCAdj is defined as the difference between capital consumption allowances (tax return depreciation) and consumption of fixed capital (the decline in the value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging).

Corporate Profits by Industry

Table 4. Corporate Profits by Industry
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level	Change from preceding quarter								
		2014	2013		2014		2013		2014	
		II	III	IV	I	II	III	IV	I	II
Industry profits:										
Profits with IVA.....	2,437.4	38.7	4.9	-6.0	164.8	1.7	0.2	-0.3	7.3	
Domestic industries.....	2,043.5	22.3	-9.1	20.0	168.4	1.2	-0.5	1.1	9.0	
Financial.....	514.5	28.6	-4.7	-68.6	33.7	5.4	-0.8	-12.5	7.0	
Nonfinancial.....	1,528.9	-6.3	-4.4	88.5	134.7	-0.5	-0.3	6.8	9.7	
Utilities.....	50.4	-1.1	-14.2	26.5	8.1	-3.6	-47.4	168.4	19.1	
Manufacturing.....	504.4	8.6	53.1	-12.9	71.9	2.3	13.5	-2.9	16.6	
Wholesale trade.....	157.6	-2.3	-6.9	4.1	5.6	-1.5	-4.4	2.8	3.7	
Retail trade.....	176.7	-3.7	-11.2	3.9	8.6	-2.1	-6.4	2.4	5.1	
Transportation and warehousing.....	83.5	1.3	2.9	7.9	9.9	2.0	4.7	12.0	13.4	
Information.....	142.9	-11.4	2.4	17.4	19.9	-9.9	2.3	16.5	16.1	
Other nonfinancial ...	413.4	2.4	-30.6	41.5	10.8	0.6	-7.8	11.5	2.7	
Rest of the world.....	393.9	16.5	13.9	-26.0	-3.6	4.2	3.4	-6.1	-0.9	
Addenda:										
Profits before tax (without IVA and CCAdj).....	2,450.1	51.1	10.7	15.6	152.9	2.3	0.5	0.7	6.7	
Profits after tax (without IVA and CCAdj).....	1,842.2	42.7	-17.3	-51.2	107.3	2.4	-1.0	-2.9	6.2	
IVA.....	-12.7	-12.4	-5.8	-21.6	11.9					
CCAdj.....	-331.3	-1.7	-1.7	-195.7	-0.8					

Profits with inventory valuation adjustment (IVA) increased \$164.8 billion, or 7.3 percent at a quarterly rate, in the second quarter after decreasing \$6.0 billion, or 0.3 percent, in the first quarter.

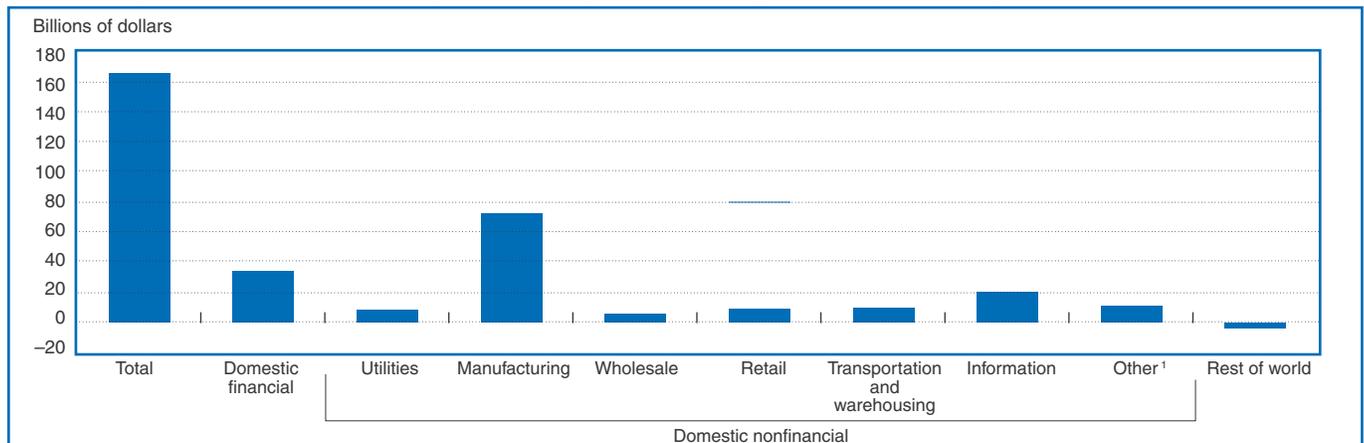
Profits of domestic industries increased \$168.4 billion, or 9.0 percent, after increasing \$20.0 billion, or 1.1 percent.

Profits of domestic financial industries increased \$33.7 billion, or 7.0 percent, after decreasing \$68.6 billion, or 12.5 percent.

Profits of domestic nonfinancial industries increased \$134.7 billion, or 9.7 percent, after increasing \$88.5 billion, or 6.8 percent. The increase was widespread across the industries; the largest contributors were manufacturing, information, and "other" nonfinancial.

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D. IVA Inventory valuation adjustment CCAdj Capital consumption adjustment

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2014:II



1. "Other" nonfinancial corporations include the agriculture, mining, construction, and services industries.
Note: Based on seasonally adjusted estimates.
U.S. Bureau of Economic Analysis

Corporate Profits by Industry

Industry profits are corporate profits by industry with inventory valuation adjustment (IVA). The IVA removes the effect of price changes on inventories. The IVA is the difference between the cost of inventory withdrawals at acquisition cost and replacement cost. Ideally, BEA would also add the capital consumption adjustment (CCAdj) for

each industry. However, estimates of the CCAdj are only available for two broad categories: total financial industries and total nonfinancial industries. For more information about BEA's methodology, see "Corporate Profits" in *Concepts and Methods of the U.S. National Income and Product Accounts* at www.bea.gov/methodologies/index.htm.